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IDAHO PUBLIC
UTILITIES COMMISSION

LISA D. NORDSTROM
Lead Counsel
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May 30, 2014

VIA HAND DELIVERY

Jean D. Jewell, Secretary
Idaho Public Utilities Commission
472 West Washington Street
Boise, Idaho 83702

Re: Case No. IPC-E-14-14
Extension of Accumulated Deferred Investment Tax Credits/Revenue
Sharing Mechanism – Idaho Power Company's Application

Dear Ms. Jewell:

Enclosed for filing please find an original and seven (7) copies of Idaho Power Company's Application in the above matter.

Very truly yours,



Lisa D. Nordstrom

LDN:csb
Enclosures

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Attorney for Idaho Power Company

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IDAHO PUBLIC
UTILITIES COMMISSION

NEW CASE

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE APPLICATION OF)	
IDAHO POWER COMPANY'S REQUEST TO)	CASE NO. IPC-E-14-14
EXTEND ITS ACCUMULATED DEFERRED)	
INVESTMENT TAX CREDITS/REVENUE)	APPLICATION
SHARING MECHANISM BEYOND 2014.)	
)	

Idaho Power Company ("Idaho Power" or "Company") hereby requests that the Idaho Public Utilities Commission ("Commission") issue an order extending the terms set forth in the settlement stipulation ("Stipulation") approved by Order No. 32424 under which Idaho Power is authorized to either (1) amortize additional accumulated deferred investment tax credits ("ADITC") or (2) share a portion of revenues with its Idaho customers. Instead of allowing the terms of the Stipulation to expire at the end of 2014, Idaho Power requests that the Commission allow the terms of the Stipulation to remain in effect until the Company has accelerated the amortization of a total of \$45 million in ADITC or until the terms of the Stipulation are otherwise modified or terminated by a Commission order.

I. BACKGROUND

1. On December 27, 2011, the Commission issued Order No. 32424 in Case No. IPC-E-11-22 approving a three-year mechanism (2012-2014) with the following structure:

a. ADITC Provisions. If in any year of the mechanism's existence the Idaho jurisdictional annual return on equity ("ROE") is less than 9.5 percent, the Company is allowed to amortize an additional amount of ADITC up to \$45 million to achieve an actual ROE up to a maximum of 9.5 percent.¹ No more than \$45 million could be used over the life of the mechanism.

b. Revenue Sharing Provisions. If in any year of the mechanism's existence the Idaho jurisdictional annual ROE is greater than 10 percent up to and including 10.5 percent, the earnings will be shared equally between Idaho customers and the Company. Idaho earnings above a 10.5 percent ROE will also be shared, with customers receiving 75 percent of the earnings applied as an offset in the pension balancing account.² There is no upper bound on shared earnings.

c. Other Provisions. If a new ROE level is established by the Commission in a general rate case, the thresholds will be automatically adjusted proportionally on a prospective basis. The Stipulation uses 10 percent as the ROE level for the threshold adjustments. The new ADITC threshold would be 95 percent of the

¹ In 2012, the Company would have been permitted to use a maximum level of \$25 million in additional ADITC amortization. However, no additional ADITC amortization was required.

² A one-time adjustment to the sharing portion of the previous ADITC/revenue sharing mechanism (established by Order No. 30978 in Case No. IPC-E-09-30) was applied in 2011 to allow one-half of the Company's share of the Idaho jurisdictional return in excess of 10.5 percent to be provided as a customer benefit in the form of a reduction in rates or an offset to amounts that would otherwise be collected from future rates.

newly established ROE, and the sharing thresholds would be set at the new ROE for 50 percent sharing and at 105 percent of the new ROE for 75 percent sharing.

II. BENEFITS FROM THE MECHANISM AND ITS PREDECESSOR

2. To date, the provisions of the mechanism and its predecessor (established by Order No. 30978 in Case No. IPC-E-09-30) have provided significant financial benefits to customers. During the existence of the mechanism and its predecessor (2009-2013), customers have received more than \$93 million in benefits as either a direct offset to rates or as an offset to amounts that would otherwise be collected in future rates. During that same period of time, the Company has not used any of the \$45 million of available ADITC. The Company's Idaho jurisdictional earnings in 2011, 2012, and 2013 triggered the revenue sharing provisions of the mechanism. The chart below details the results of the mechanism and its predecessor.

	Idaho Jurisdictional ROE	Reduction to Rates	Offset to Pension Balancing Account	Total
2009	9.75%	No Action – ROE within the deadband		
2010	10.37%	No Action – ROE within the deadband		
2011	12.55%	\$27,098,897	\$20,324,173	\$47,423,070
2012	11.18%	\$7,151,221	\$14,618,532	\$21,769,753
2013	11.22%	\$7,602,043	\$16,512,853	\$24,114,896
		Grand Total		<u>\$93,307,719</u>

3. The direct financial benefits that customers have received to date under the mechanism are evident; however, it is important to recognize other benefits that customers and the Company have derived from this mechanism. Idaho Power's ability to utilize additional ADITC when Idaho jurisdictional earnings fall below a 9.5 percent ROE (although unutilized to date) has provided comfort to investors and credit rating agencies in that the Company has had a greater opportunity to achieve earnings near

the Commission-authorized rate of return in years when revenue from rates alone would not have otherwise provided that same opportunity. In fact, in its latest Credit Opinion included as Attachment 1 to this Application, Moody's Investors Service states:

This settlement stipulation is also viewed positively from a credit perspective, since it provides a good amount of certainty that the company will actually achieve an ROE that compares well relative to allowed ROEs and utility earnings in neighboring jurisdictions, in recent years.³

The Company's credit ratings directly impact the availability and cost of capital, which in turn affects the rates that customers pay when new rates are determined. Banks and fixed income investors rely on a company's credit ratings to determine its return—a lower credit rating means more risk and therefore a higher return (interest rate) is necessary to attract investors. Credit ratings also affect access to working capital needed for short-term financing needs.

III. PROPOSED EXTENSION AND MODIFICATIONS TO THE ADITC/REVENUE SHARING MECHANISM

4. The Company has used none of the \$45 million available ADITC to date. At the time of this filing, the Company expects to use less than \$5 million of additional ADITC in 2014. If the Company's forecasted level of additional ADITC amortization in 2014 is correct, more than \$40 million in additional ADITC will remain unused from the original \$45 million level set aside under the Stipulation. Because the current ADITC/revenue sharing mechanism has been beneficial for both customers and the Company and because the Company expects a significant portion of the ADITC set aside under the Stipulation to still be available for future amortization at the end of 2014,

³ Moody's Investors Service – Credit Opinion: Idaho Power Company, February 7, 2014, p. 2.

Idaho Power proposes to extend the mechanism approved by Order No. 32424 beyond 2014.

5. Idaho Power requests that the mechanism be extended until the Company has accelerated the amortization of up to a total of \$45 million in additional ADITC (including any ADITC applied toward 2014) or until the terms are otherwise modified or terminated by a Commission order. The Company believes that because there is now an adequate level of familiarity with the mechanism combined with the demonstrated benefits to customers and the Company, it is appropriate to extend the provisions of the Stipulation beyond 2014 without modification. Therefore, the Company proposes that the Commission issue an order extending the terms set forth in the Stipulation approved by Order No. 32424 as described in paragraph 1 of this Application.

IV. COMMUNICATIONS

6. Communications and service of pleadings with reference to this Application should be sent to the following:

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V. MODIFIED PROCEDURE

7. Idaho Power believes that a technical hearing is not necessary to consider the issues presented herein and respectfully requests that this Application be processed under Modified Procedure; i.e., by written submissions rather than by hearing. RP 201

et seq. In order for the mechanism to remain in effect for 2015, the Company requests a Commission order no later than December 31, 2014.

8. To facilitate broad participation in these discussions, Idaho Power has served this Application upon parties to its last general rate case, Case No. IPC-E-11-08.

VI. REQUEST FOR RELIEF

Idaho Power requests that the Commission issue its order approving a modified accounting order authorizing the Company to extend the mechanism under the provisions described herein and authorizing this proceeding to be processed such that a final Commission order will be issued no later than December 31, 2014.

Respectfully submitted this 30th day of May 2014.



LISA D. NORDSTROM
Attorney for Idaho Power Company

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that on this 30th day of May 2014 I served a true and correct copy of the within and foregoing APPLICATION upon the following named parties by the method indicated below, and addressed to the following:

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Christa Beary, Legal Assistant

BEFORE THE
IDAHO PUBLIC UTILITIES COMMISSION

CASE NO. IPC-E-14-14

IDAHO POWER COMPANY

ATTACHMENT 1

MOODY'S

INVESTORS SERVICE

Credit Opinion: Idaho Power Company

Global Credit Research - 07 Feb 2014

Boise, Idaho, United States

Ratings

Category	Moody's Rating
Outlook	Stable
Issuer Rating	A3
First Mortgage Bonds	A1
Senior Secured	A1
Commercial Paper	P-2
Parent: IDACORP, Inc.	
Outlook	Stable
Issuer Rating	Baa1
Senior Unsecured Shelf	(P)Baa1
Commercial Paper	P-2

Contacts

Analyst	Phone
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William L. Hess/New York City	212.553.3837

Key Indicators

[1]Idaho Power Company

	9/30/2013(L)	12/31/2012	12/31/2011	12/31/2010	12/31/2009
CFO pre-WC + Interest / Interest	3.8x	3.8x	4.0x	4.6x	4.3x
CFO pre-WC / Debt	14.5%	14.4%	15.6%	18.8%	18.2%
CFO pre-WC - Dividends / Debt	10.7%	10.8%	12.2%	15.6%	14.6%
Debt / Capitalization	42.4%	41.8%	42.9%	46.7%	46.2%

[1] All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations. Source: Moody's Financial Metrics

Note: For definitions of Moody's most common ratio terms please see the accompanying [User's Guide](#).

Opinion

Rating Drivers

Strong regulatory support and cost recovery provisions

Weak financial metrics expected to improve with pension adjustments

Considerable capital expenditures continue over intermediate-term

Increasing dividend payout toward industry averages

Corporate Profile

Idaho Power Company (IPC) is a vertically integrated electric utility and principal wholly-owned subsidiary of IDACORP, Inc. (IDA). IPC's service territory encompasses southern Idaho (which constitutes approximately 95% of rate base) and eastern Oregon and its rates are regulated by the Idaho Public Utilities Commission (IPUC) and the Oregon Public Utility Commission (OPUC), while the Federal Energy Regulatory Commission (FERC) regulates its transmission operations. IDA's holdings, on a revenue basis, are nearly 100% regulated.

SUMMARY RATING RATIONALE

IPC's A3 senior unsecured rating reflects its low-risk utility operations in an above average regulatory environment. We view the regulatory support that IPC receives as a key component in offsetting weak financial metrics, given its rating category. The company benefits from an impressive suite of cost recovery provisions, which helps to lower IPC's business risk and results in highly stable and predictable cash flow from operations year-over-year. The rating also considers a dividend policy that will increase the amount of negative free cash flow that the company produces over the next several years, as the company targets a 50% - 60% payout ratio in the presence of an increasing capex plan.

Recent Developments

On 30 January, 2014 we upgraded the ratings of IDA to Baa1 from Baa2 and IPC to A3 from Baa1. The primary driver of the rating action was Moody's more favorable view of the relative credit supportiveness of the US regulatory framework, as detailed in our September 23, 2013 Request for Comment: "Proposed Refinements to the Regulated Utilities Rating Methodology and our Evolving View of US Utility Regulation."

Factors supporting this view include better cost recovery provisions, reduced regulatory lag, and generally fair and open relationships between utilities and regulators. The US utility sector's low number of defaults, high recovery rates, and generally strong financial metrics from a global perspective provide additional corroboration for these upgrades.

DETAILED RATING CONSIDERATIONS

IPUC SUPPORT IS FUNDAMENTAL TO RATING

We view the suite of cost recovery provisions allowed by the IPUC to be well above average compared to the other states across the US. These mechanisms provide a good amount of certainty to cash flow generation in any given year, with any variances typically due to hydro conditions that average out over time. Some of the more important credit positive features of IPUC regulation include: 1) a relatively swift 7-month statutory period governing rate cases and partially forecast test years to reduce regulatory lag; 2) frequent decisions based on settlements instead of litigated proceedings; 3) reasonable allowed returns on equity; 4) reliance on various cost tracking mechanisms (e.g., the annual power cost adjustment, or PCA, which reconciles forecasted purchased power costs in rates to the actual amount spent on a 95%/5% customer/shareholder basis) 5) pre-approval of future rate treatment for certain capital investments allowed under Idaho state law (i.e., Senate Bill 1123 which grants the IPUC pre-approval of rate treatment for certain capex); 6) legislatively available inclusion of CWIP in rate base allowed under Idaho state law; and 7) a decoupling mechanism via the fixed cost adjustment (FCA; which allows IPC to recover up to 3% of base revenues in the current year, with any excess recovered in subsequent years).

IPC is currently operating under a 2011 regulatory settlement stipulation in its Idaho jurisdiction. The settlement expires at year-end 2014 and allows the company to amortize additional Accumulated Deferred Investment Tax Credits in an aggregate amount up to \$45 million should its ROE fall below 9.5% in its Idaho jurisdiction. IPC did not need to use any additional ADITC in 2012 or 2013 to earn this return.

The rate settlement stipulation also details earnings sharing between IPC and customers, on a 50/50 basis (via customer refunds), when IPC's actual earned ROE in the Idaho jurisdiction falls between 10.0% and 10.5%. Furthermore, if jurisdictional earnings exceed a 10.5% ROE, the additional earnings are shared with customers on a 75% customers / 25% IPC basis, in the form of a reduction to its pension regulatory asset.

This settlement stipulation is also viewed positively from a credit perspective, since it provides a good amount of certainty that the company will actually achieve an ROE that compares well relative to allowed ROEs and utility earnings in neighboring jurisdictions, in recent years. The fact that IPC has not needed to use the ADITC amortization is also viewed positively, since it gives the company additional support should they run into

operational challenges or poor hydro conditions, the latter of which is more likely since over half of the company's power supply is hydro based.

The IPUC has recently approved the recovery of over \$46 million of efficiency and demand side management costs for IPC, through an energy efficiency rider or through the PCA as well as approval to invest around \$130 million for environmental upgrades (i.e., installation of selective catalytic reduction, "SCR," equipment to minimize nitrogen oxide emissions) at the Jim Bridger coal plant (IPC owns approximately 33% of the roughly 2,100 MW Wyoming facility). The IPUC did, however, refrain from granting IPC a binding commitment for rate base treatment of the investment. We view these developments as further evidence of IPUC support for the company's credit profile.

WEAK FINANCIAL PROFILE DESPITE COST RECOVERY FEATURES

Despite strong regulatory support through rate increases, a relatively high ROE and an impressive suite of cost recovery provisions, IPC has produced weak financial metrics for its rating category over the past several years. For LTM 3Q13 the company's cash flow before working capital (CFO pre-WC) to debt was 15.0%. This level has remained steady since 2011, but is lower than vertically integrated A3 peers, who have averaged 19% over that same period. Importantly, these metrics include the one-time benefits of bonus depreciation that have inflated the industry's cash flow to debt metrics by around 200-300 basis points since 2010. We typically adjust these amounts out for ratings purposes and doing so would maintain IPC's relation to peers, but would support a financial profile that is more in-line with Baa3 rating levels according to our ratings methodology.

While the strong support of the IPUC and very stable and predictable cash flow generation have been the offset to these weak financial metrics in the past, the company is likely to benefit from anticipated improvements in pension funding levels, which will in-turn improve IPC's cash flow to debt metrics. The impact for IPC is likely to be twofold, in regard to pension funding: 1) Moody's standard adjustments impute pension liabilities as debt. As interest rates rise and increase pension discount rates, the amount of underfunded pension and Moody's adjusted debt will decline. 2) IPC has been contributing significant amounts to the pension in recent years (i.e., \$44 million in 2012 and \$30 million as of September 2013), which should reduce the amount of CFO reduction as the funded status improves.

We also recognize that the company's cash position can benefit from additional unused tax benefits, although we do not consider those as part of ongoing, core utility cash flow production.

STEP-UP IN CAPEX WITH SCR INSTALLATION

IPC expects to spend roughly \$300 million in capital expenditures in both 2014 and 2015. The majority of these expenditures are in maintenance of existing facilities and infrastructure, though the most significant single item is the company's share of the SCR installation at Jim Bridger, which will be around \$45 million in each of the next two years.

There are two large, long term transmission projects in the development pipeline (i.e., 500 kV Boardman-Hemmingway estimated at around \$890-\$940 million of total costs and the 500 kV Gateway West, which IPC's share is estimated between \$150 and \$300 million) that involve partnerships with other utilities. These are both currently in the permitting process and the only commitments to date have been around its share of permitting costs. The total costs and dates of service of these projects is highly subject to change as the development process continues. Given the persistent delay in siting and uncertainty of siting and construction, these projects are not a material part of our credit analysis. The construction costs of these projects are not included in the company's current capital expenditure estimates for 2014 and 2015.

Other potential projects include the investigation of options to ensure additional resources are available to meet expected load growth that has recently been revised upward to five-year compound annual growth rate in residential customers of 2.1% and residential load of 1.4%. Management has stated that these options include anything from a new peaking resource, to market purchases, to demand response programs or energy efficiency programs. These options will be analyzed further given continued delays in Boardman-Hemmingway, and through the biennial integrated resource planning (IRP) process.

Liquidity Profile

IPC has reasonable liquidity supported by internally generated cash flow and its own committed bank credit facilities. The company recently amended and restated its standalone credit facility, so that the \$300 million committed revolver now expires in October 2018. This facility is principally used to backstop its commercial paper

program.

As of September 30, 2013, IPC had about \$179 million of unrestricted cash on hand and there were no direct borrowings under the facility and no commercial paper outstanding. There is, however, approximately \$24 million of revolver capacity unavailable as it is earmarked for American Falls and Port of Morrow variable rate bonds, maturing in 2025 and 2027, respectively, that holders may put to Idaho Power. IPC has one financial covenant that applies to the revolver, which limits the debt to total capitalization ratio to 65%. As of September 30, 2013, IPC's leverage ratio was 50%, leaving ample cushion against the covenant.

During LTM 3Q13, IPC produced positive free cash flow - a rarity in the utility sector - with CFO of \$318 million, capital expenditures at \$210 million and dividends to IDACORP of \$76 million. Over the past several years, IDA has been pursuing a policy to increase its dividend payout ratio, with a target of around 50-60%, (as reported amounts were about 36% in 2011, 41% in 2012 and 46% during LTM 3Q13). While the amounts in question would not cause any significant change in IPC's liquidity profile, the policy is likely to further exacerbate the company's weak financial metrics, such as CFO pre-WC less dividends to debt, which was 11% through LTM 3Q13, down from 16% in 2010.

IPC's maturity profile appears very manageable, with \$120 million maturing in July of 2018.

Rating Outlook

IPC's stable rating outlook reflects a very supportive regulatory environment which offers timely cost recovery and constructive rate case outcomes. The outlook also incorporates a view that the company will fund capex conservatively and manage its dividend growth strategy with an eye toward improving cash flow coverage metrics for debt and interest. The stable outlook also incorporates our expectation that the company will be produce cash flow to debt metrics in the mid to high teens and a dividend payout ratio of less than 60%.

What Could Change the Rating - Up

A rating upgrade is unlikely in the near-to-medium term; however, IPC's rating outlook could turn to positive if benefits from rate relief materialize to produce metrics in the mid-20% range for CFO pre-WC to debt, on a sustainable basis.

What Could Change the Rating - Down

The rating would likely be revised downward if cash flow (excluding the effects of bonus depreciation) metrics were to persist below 15% CFO Pre-WC to debt, or if IPC were to experience a decline in the level of regulatory support for future rate filings.

Rating Factors

Idaho Power Company

Regulated Electric and Gas Utilities Industry Grid [1][2]	Current LTM 9/30/2013		[3]Moody's 12-18 Month Forward ViewAs of February 2014	
Factor 1 : Regulatory Framework (25%)	Measure	Score	Measure	Score
a) Legislative and Judicial Underpinnings of the Regulatory Framework	A	A	A	A
b) Consistency and Predictability of Regulation	A	A	A	A
Factor 2 : Ability to Recover Costs and Earn Returns (25%)				
a) Timeliness of Recovery of Operating and Capital Costs	Aa	Aa	Aa	Aa
b) Sufficiency of Rates and Returns	A	A	A	A
Factor 3 : Diversification (10%)				
a) Market Position	Baa	Baa	Baa	Baa
b) Generation and Fuel Diversity	A	A	A	A
Factor 4 : Financial Strength (40%)				

a) CFO pre-WC + Interest / Interest (3 Year Avg)	3.9x	Baa	3.5x - 4.0x	Baa
b) CFO pre-WC / Debt (3 Year Avg)	15.2%	Baa	13% - 17%	Baa
c) CFO pre-WC - Dividends / Debt (3 Year Avg)	11.6%	Baa	10% - 14%	Baa
d) Debt / Capitalization (3 Year Avg)	41.9%	A	40% - 45%	A
Rating:				
Grid-Indicated Rating Before Notching Adjustment		A3		A3
HoldCo Structural Subordination Notching	n/a	n/a	n/a	n/a
a) Indicated Rating from Grid		A3		A3
b) Actual Rating Assigned		A3		A3

[1] All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations. [2] As of 9/30/2013(L); Source: Moody's Financial Metrics [3] This represents Moody's forward view; not the view of the issuer; and unless noted in the text, does not incorporate significant acquisitions and divestitures.

MOODY'S
INVESTORS SERVICE

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